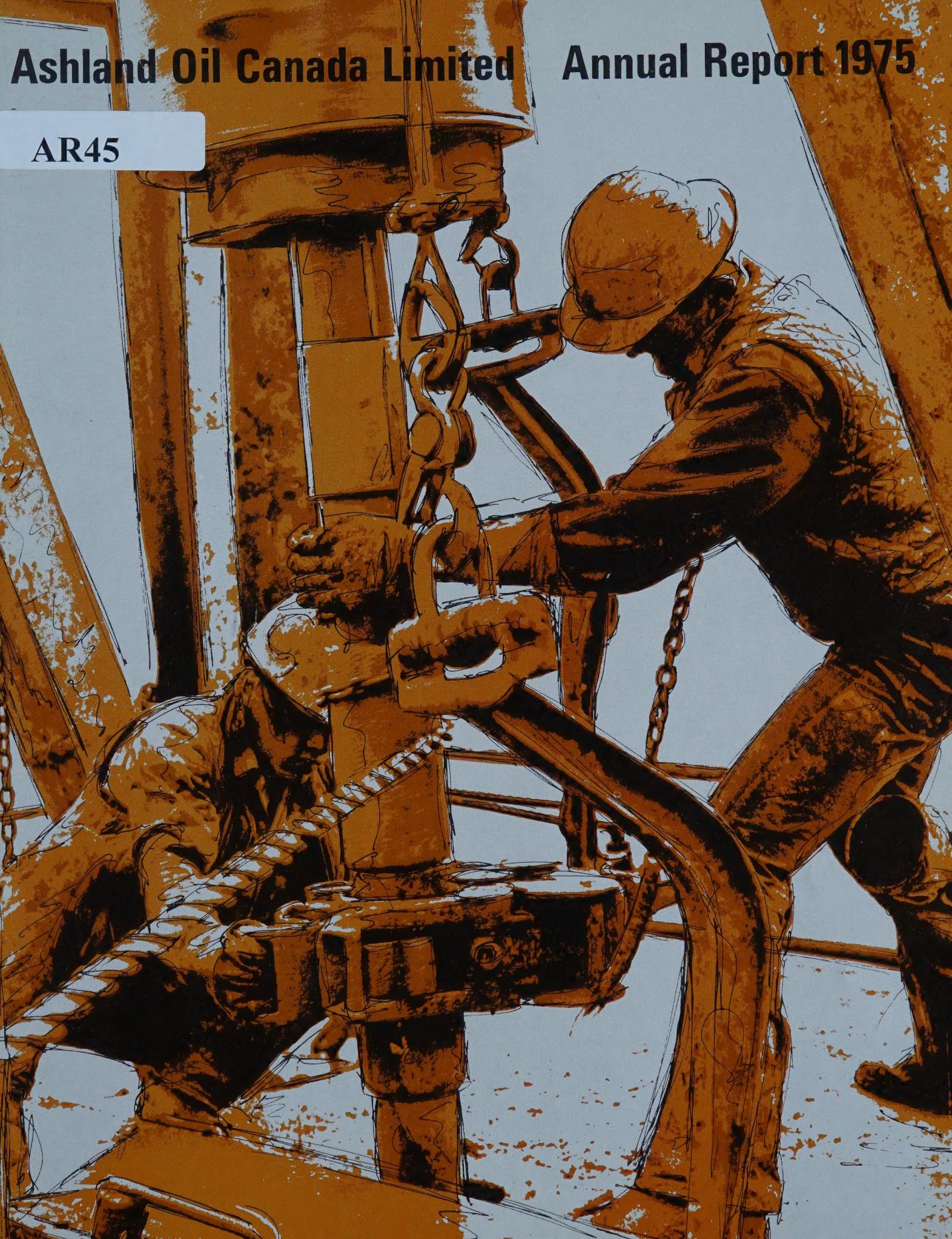


Ashland Oil Canada Limited Annual Report 1975

AR45





Financial and operating highlights

Financial

	Year ended September 30		Per cent change
	1975	1974	
Restated thousands of dollars except per share			
Sales and operating revenue			
Oil and gas	\$ 36,138	\$ 31,984	
Asphalt paving and materials	113,338	93,992	
Chemical and petroleum	23,628	23,016	
Other income	3,142	2,146	
	\$176,246	\$151,138	+17
Income before extraordinary gain	\$ 15,002	\$ 10,058	+49
Extraordinary gain	—	1,314	
Net income for the year	\$ 15,002	\$ 11,372	
Per common share			
Income before extraordinary gain	\$1.16	\$.77	+49
Net income for the year	\$1.16	\$.87	
Cash flow	\$ 31,508	\$ 32,427	— 3
Capital expenditures	\$ 33,497	\$ 24,022	+39
Working capital	\$ 18,541	\$ 27,565	—33

Operating

	Year ended September 30		Per cent change
	1975	1974	
Production			
Crude oil and NGL – Bbls	7,913,927	9,378,793	—16
Daily average	21,682	25,695	
Natural gas – Mcf	14,046,495	14,083,633	0
Daily average	38,484	38,585	
At fiscal year end			
	1975	1974	Per cent change
Proven reserves			
Crude oil and NGL – Bbls	109,320,000	116,190,000	— 6
Natural Gas – Mcf	379,720,000	355,600,000	+ 7

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10. Chemical and petroleum
11. Summary of operations and management's analysis
13. Financial review
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16. Financial statement
24. Corporate directory

The Annual General Meeting of Shareholders will be held at Calgary, Alberta on February 26, 1976.

Si vous préférez recevoir le rapport annuel de la compagnie en français, veuillez en informer le Secrétaire, Ashland Oil Canada Limited, 400 University Avenue, Toronto, Ontario M5G 1S5.

Report of the directors

Ashland Canada earnings of \$15 million were up 50% over last year on a 17% rise in total revenue which reached a record of \$176 million. Net income has increased at the compound rate of 33% per annum over the five years since the Company was formed.

We believe 1975 performance demonstrates the basic strength of Ashland Canada and its ability to generate cash flow and earnings. Record earnings were achieved despite an increase in oil and gas royalty payments of \$5.5 million, an increase in current and deferred tax of \$3.6 million, reduced chemical profits and a reduction in oil production from the previous year.

Cash flow for the year of \$31.5 million was down slightly from \$32.4 million in 1974. Corporate cash flow was affected by a significant increase in current income tax to \$11.6 million from \$1.3 million the previous year.

Our report this year will be more detailed than in the past and we direct your attention to a section of the report entitled "Management's discussion and analysis of the summary of operations".

Revenue from oil and gas production increased by 13% over last year because of higher wellhead prices. Natural and solution gas production remained constant at 38 million cubic feet per day. Crude oil production of 21,700 barrels per day was down 16% due to market prorationing caused by export restrictions.

Canadian crude oil production will remain below productive capacity for the next several months because of increasing export limitations announced by the government. The new Sarnia to Montreal pipeline is scheduled to commence initial throughput by mid-1976. As Canadian demand rises to offset export reductions, crude oil

production and revenue will increase accordingly.

Proven crude oil and liquid reserves were 109 million barrels at year end for a reduction of 6% after production during the year of 8 million barrels. Proven natural gas reserves increased by 24 billion cubic feet to 380 billion after production of 14 billion during the year.

Oil and gas capital expenditures in Canada during the year were less than \$10 million, compared with about \$20 million in 1974, as projects were deferred or delayed pending clarification of government policy on royalties, taxes and prices. Drilling activities were curtailed, with participation in 136 wells in Canada compared with 228 in 1974.

Ashland Canada is a member of the Delta 5 group which has undertaken extensive geophysical programs in the Mackenzie Delta area to identify drillable prospects. The group has now been able to take advantage of the information developed. In September negotiations were completed to drill a minimum of four wells in the Delta area. Two of the tests have been commenced and are now drilling.

The Company became directly involved in foreign exploration during 1975 with capital expenditures totalling about \$3 million. Exploration programs are in progress, with partners, on large concessions in Iran and Bangladesh. Preliminary discussions are under way in other areas.

We were concerned last year about the dispute between the federal and provincial governments over resource taxation, oil and gas pricing and regulation generally of the industry. Many uncertainties are still with us but we believe a positive trend has developed.

Crude oil wellhead prices were increased in July by \$1.50 per barrel and oil producers were allowed to retain some part of the increase, varying by province. Alberta and the federal government reached agreement on an increase in the wellhead price of natural gas, effective November 1, 1975, with annual increments thereafter.

The federal, Ontario and Alberta governments became participants in

the \$3 billion Syncrude project in the Athabasca oil sands. Involvement has exposed these governments to the hard realities of energy development and confirmed that much higher oil prices are necessary to support economic oil sand development.

The federal and most provincial governments have now publicly recognized that billions of dollars are required to develop the country's oil and gas potential and that the private sector must be encouraged to invest by adequate incentive.

The governments of British Columbia and Saskatchewan, where royalty and taxation levels are onerous, have both announced plans for royalty reductions along with exploration and development incentives.

New federal landholding and royalty regulations are anticipated early in 1976 and are expected to encourage exploration of the highly potential frontier areas.

The industry has responded to the positive trend reviewed above by announcing a sharp acceleration in exploration and development programs. Much is still required, however, to eliminate uncertainties and improve incentives.

The Asphalt Paving & Materials Division had another outstanding year, with sales over \$110 million and pre-tax earnings of \$13 million. This operation has made remarkable progress since 1970 when total revenue was about \$35 million. Strong organizations have been developed on a geographic basis across Canada, and all regions contributed to the record results. Good construction weather was prevalent generally, and profit margins increased nominally over 1974.

Chemical and Valvoline earnings were down from 1974 levels although total sales were slightly higher. Profits were affected by higher material and operating costs and, in the case of chemicals, by softening prices and some expense related to the new production facility in Mississauga. The new resin plant, which commenced start-up operations in December, was completed at a total cost of close to \$14 million. With

capacity of 70 million pounds per year, the plant will provide products to customer specification for a wide range of Canadian industry.

On October 13 the Prime Minister announced an anti-inflation program for the country. Regardless of the merit of wage and price control as a means of combating inflation, there is no question stern measures and strong leadership are required. Ashland Canada will support the spirit of the anti-inflation policy. We have urged that the anti-inflation legislation contain a specific time limitation against self-perpetuation. Overt government control may be necessary for a short duration, but must not even appear to be permanent or the cure will be much worse than the disease.

During 1975 the managements of both Ashland Oil, Inc. and Ashland Canada studied various alternatives for increasing the Canadian ownership in Ashland Canada. As part of the study Ashland Oil considered selling all of its 84% interest in the Company.

In October Ashland Oil, Inc. declined a "tentative oral offer" from Brascan of about \$13.50 per share, which was understood to include all outstanding common shares of Ashland Canada. Orin Atkins, Chairman and Chief Executive Officer of Ashland Oil, Inc., described the offer as not reflecting the full value of the Company and stated that Ashland Oil intended to encourage the aggressive development of Ashland Canada and remain involved in its promising future.

The Board of Directors of Ashland Canada, at a meeting held September 15, declared the first dividend paid on common shares, and a dividend policy for the Company. The policy provides for a total annual dividend of 20¢ per share, with semi-annual payments of 10¢ per share in March and September each year. The initial dividend payment of 50¢ per share made in September consisted of 20¢ per share for fiscal 1975 and an extra dividend of 30¢ per share which recognized the growth in corporate earnings over the past five years.

Looking to 1976 and the future, we are optimistic about opportunities for

profitable investment in oil and gas exploration and development. Our non-oil business should continue to grow with basic demand as Canada moves out of the present recessionary economy.

Ashland Canada will more than double oil and gas capital expenditures in 1976 to over \$20 million in Canada. Participation in the Delta drilling program will definitely increase our exposure to major hydrocarbon reserves for the future. The recent oil discovery by Panarctic at Bent Horn should encourage active exploration by industry in the Arctic Islands where the Company has significant representation.

Exploration and development programs planned for Alberta and British Columbia during 1976 look most attractive. Natural gas reserves will be developed for available market, encouraged by higher prices. Exploration and development of oil will be undertaken recognizing the short term restrictions on production but in anticipation of full demand for all productive capacity within two or three years.

The asphalt paving and materials business is strong and will continue to contribute significant earnings. We will continue to expand this operation in the country's larger urban areas as opportunities become available.

Chemical earnings will likely be affected by the expense of placing a major new facility into production. As the new plant reaches capacity, however, we will have an unusual ability to expand and add to traditional markets and serve all of our customers more adequately.

Valvoline sales should continue to grow as our products find ready consumer acceptance. Plans are being completed for the construction of a new Valvoline plant in Toronto as present facilities are strained to handle increased sales.

The Directors have accepted the resignations of Karl O. Kinzer and William A. Elser as Directors and Officers of the Company. Mr. Kinzer retired in June as a Director and as a

senior executive in our construction division operation in British Columbia. Mr. Elser resigned in October as a Director and Vice-President, and President of the Oil & Gas Division. The contribution of these men to the growth of Ashland Canada is acknowledged, and their advice and counsel as Directors will be missed.

The Board of Directors and Management recognize and appreciate the individual contributions of Ashland Canada people and wish to thank them for their loyalty and support through the past year.



H. Earl Joudrie
Chairman of the Board
and Chief Executive Officer



Vernon Van Sant, Jr.
President

December 22, 1975

Production before royalties

	1975	1974
Crude oil and liquids (barrels)	7,913,927	9,378,793
Daily average	21,682	25,695
Natural gas (thousands of cu. ft.)	12,127,644	11,873,421
Daily average	33,227	32,530
Solution gas (thousands of cu. ft.)	1,918,851	2,210,212
Daily average	5,257	6,055

Oil and gas reserves before royalties – September 30

	1975	1974
Crude oil and natural gas liquids (thousand bbls.)		
Proven developed	109,320	116,190
Probable additional	55,070	55,500
Total	164,390	171,690
Natural gas (million cu. ft.)		
Proven developed	379,720	355,600
Probable additional	110,580	125,500
Total	490,300	481,100

Oil and gas reserves – proven and probable

Geographic Distribution – September 30, 1975

	Oil		Gas	
	(million bbls.)	%	(billion cu. ft.)	%
Alberta	134.0	81.6	421.7	86.0
Saskatchewan	22.7	13.8	39.9	8.1
British Columbia	7.5	4.5	28.7	5.9
Other	0.2	0.1	—	—
Total	164.4		490.3	

Oil and gas acreage holdings* – September 30, 1975

Petroleum and natural gas rights

	Gross acres	Net acres
Traditional areas :		
Alberta	3,913,439	1,683,078
British Columbia	223,724	109,048
Saskatchewan	353,244	207,423
Manitoba and Ontario	12,788	10,644
Total	4,503,195	2,010,193
Frontier areas :		
Northwest Territories	1,587,750	226,487
Arctic islands	8,534,711	790,260
Eastcoast offshore	3,608,002	309,598
Total	13,730,463	1,326,345
Fee mineral title ownership		
Saskatchewan	1,003,289	499,267
Manitoba	753,000	376,500
Total	1,756,289	875,767
Total holdings	19,989,947	4,212,305

*Excludes foreign interests

Oil and gas operations

Revenue

Oil and gas revenue after royalties was \$36 million compared with \$32 million in 1974. The increase resulted from a \$1.50 per barrel general increase in crude oil prices, effective in July, and a gradual increase in natural gas prices over the year.

These price increases were partly offset by higher provincial royalties and federal income taxes. Revenue before royalties rose 21% but royalty payments increased by 38%. Royalty and other payments to provincial governments, which are not deductible for tax purposes, totalled \$19 million during 1975.

Production

In January 1975 the federal government imposed restrictions on the volume of crude oil available for export. In addition, the tax on crude oil exports was increased so that medium and low gravity crudes from Canada were not competitive with other sources in traditional United States markets.

Curtailment of export volumes reduced Ashland Canada average crude oil production to 21,700 barrels per day compared with 25,700 barrels per day in 1974. Without such market pro-rationing the Company's productive capacity would be in the range of 28,000 barrels per day.

We expect some further decline in average daily oil production during 1976 due to additional export restrictions. Production levels should start to rise in late 1976 as Canadian demand increases and as the Sarnia-Montreal pipeline gradually reaches capacity.

Natural gas production averaged 33 million cubic feet per day and solution gas, produced with oil, was 5 million cubic feet per day, equal in total to 1974 production levels. The average well-head price for natural gas received in 1975 was 35¢ per thousand cubic feet. Effective November 1, 1975 we are

receiving an average wellhead price of 90¢ per thousand cubic feet for Alberta gas, which represents about 80% of our production.

Income from natural gas should rise significantly in 1976 from increased sales volumes and higher prices as new gas committed to market comes on stream. New gas production scheduled to commence during 1976 should exceed 10 million cubic feet per day.

Reserves

For several years proven oil reserves in Canada have declined as production volumes have exceeded additional reserves developed. Until this year Ashland Canada had always replaced production and added to proven oil and gas reserves. During 1975 proven oil reserves declined by 7.3 million barrels, marginally less than the 7.9 million barrels produced.

Proven natural gas reserves increased over the year by 24 billion cubic feet, after production during the year of 14 billion cubic feet. The additions were primarily due to development drilling and pipeline connections to fields previously shut in.

Capital expenditures

Exploration and development activities were curtailed during the year pending clarification of federal and provincial policies affecting the oil and gas industry. Capital expenditures on oil and gas projects in Canada were less than \$10 million compared with just under \$20 million in 1974. The deferment of exploratory and development drilling programs because of uncertainties was the prime factor in the decline in oil reserves.

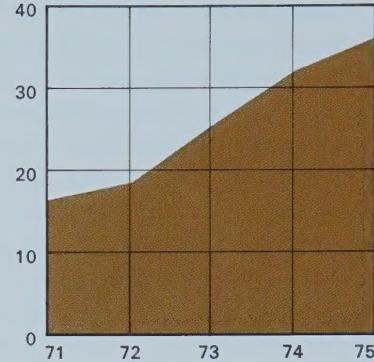
Drilling activity was down significantly, with participation in 136 wells compared with 228 wells in 1974. Of these, only 7 were exploratory tests against 33 last year.

	Exploratory	Development	Total
Oil	—	23	23
Gas	3	84	87
Abandoned	4	22	26
Total	<u>7</u>	<u>129</u>	<u>136</u>

Oil and gas capital expenditures in Canada during fiscal 1976 are projected to exceed \$20 million, including about \$5 million dedicated to exploration in the frontier areas.

Oil and gas Sales and operating revenue

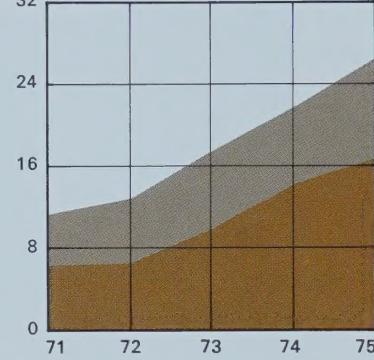
millions of dollars



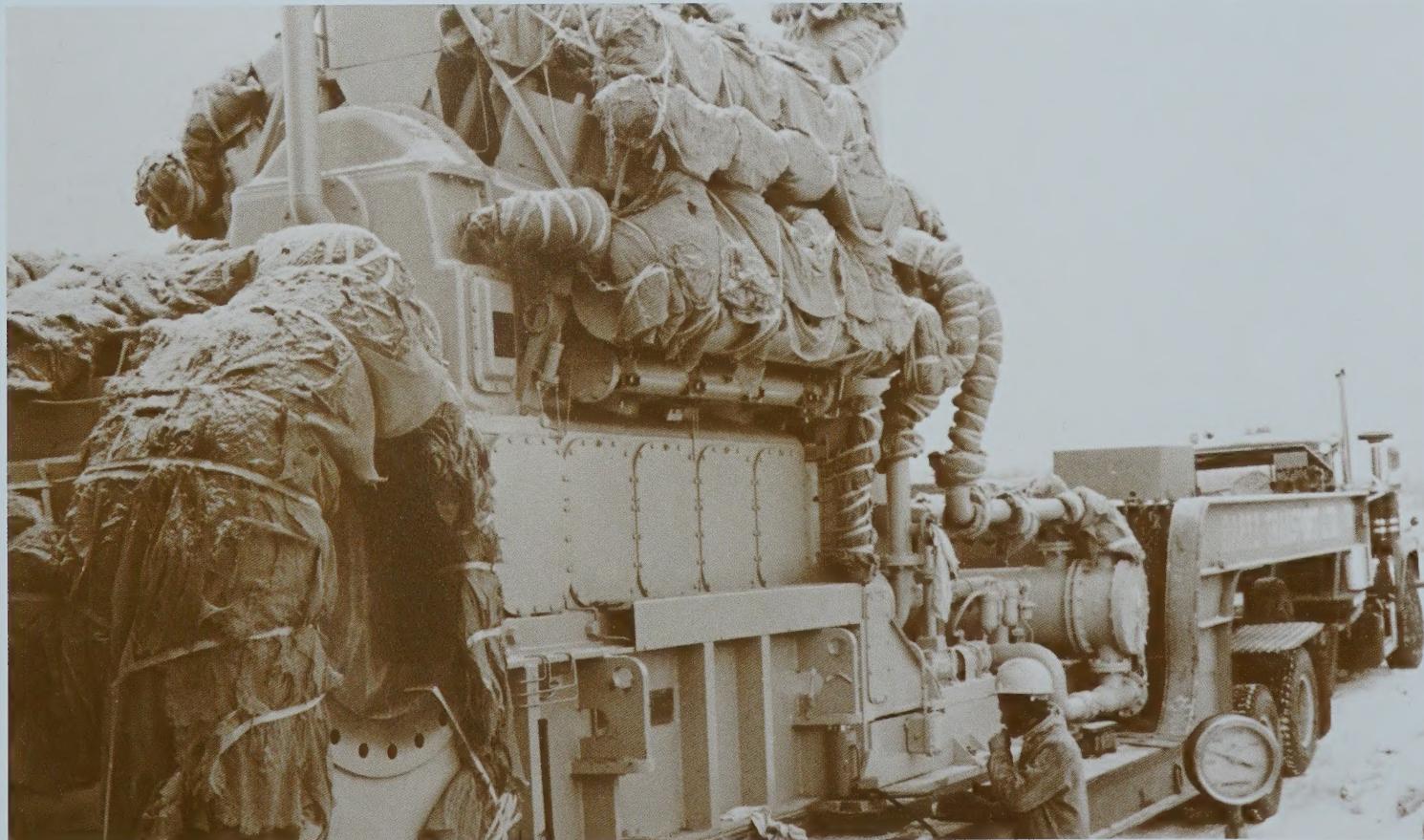
Cash flow from operations

■ Depreciation and depletion
■ Income before tax

millions of dollars



Compressor delivery—Saddle Lake gas plant.



Canadian exploration and development activities

Clearwater, Alberta

Ashland Canada holds a 10% interest in Shell Limestone Mountain A2-13-34-11, recently announced as a major Mississippian gas discovery in the deep Foothills Belt, 80 miles northwest of Calgary. The test was drilled on a Crown drilling reservation covering 10,560 acres purchased by Shell for \$2.8 million in January 1975. In addition to evaluating the drilling reservation lands the A2-13 test, by prior agreement, earned Shell an interest in 9,800 acres of adjacent

Crown leases in which Ashland retains a 10% working interest.

A second joint well is anticipated on the drilling reservation lands in the spring to further evaluate this major structure. The Limestone A2-13 well has excellent deliverability and the reserves could be of major proportions. Gas plant construction and pipeline connections will be completed within 2 to 3 years, depending on the results of evaluation drilling.

Majorville-Milo, Alberta

Ashland Canada followed up an oil discovery in the Majorville area, 75

miles southwest of Calgary, with further drilling in 1975. A four-mile "step-out" discovered gas, which flowed at a rate of 10 million cubic feet per day on drillstem test, from several thick Lower Cretaceous sands.

Ashland now has five oilwells and three gas wells in the Majorville area, and development drilling continues. Productive capacity of the wells is as much as 250 barrels per day. Further exploratory drilling is planned for the larger Majorville-Milo area, where Ashland Canada holds interests ranging from 25% to 50% in 75,000 acres of petroleum and natural gas leases.



Princess, Alberta

The Company participated in an extensive shallow gas program in the Princess and Jenner-Atlee areas of southeastern Alberta. These fields are adjacent to the northwest corner of the "Suffield Block". Drilling resulted in 24 gas wells, each having estimated daily production rates of 250 to 500 thousand cubic feet per day.

Ashland's working interests in the wells vary from 15% to 95%. Production will be from the Milk River, Medicine Hat and Second White Specks zones. Gas compressors and gathering lines have been installed in both areas, and production will commence early in 1976.

Saddle Lake, Alberta

Development drilling, gas gathering systems and compression facilities were recently completed by Ashland at Saddle Lake. A take-or-pay contract with Pan-Alberta Gas Ltd. became effective in November 1975. Ashland

Canada's share of this new gas production will average eight million cubic feet per day.

Other Natural Gas Development

Development of natural gas reserves for market and the construction of necessary gathering and plant facilities is under way in several other areas of Alberta. The Company completed a gas plant at Cherhill, 50 miles northwest of Edmonton, to process solution gas from the Cherhill oil field. Some of the gas is being sold and the remainder re-injected to maximize the recovery of oil in place.

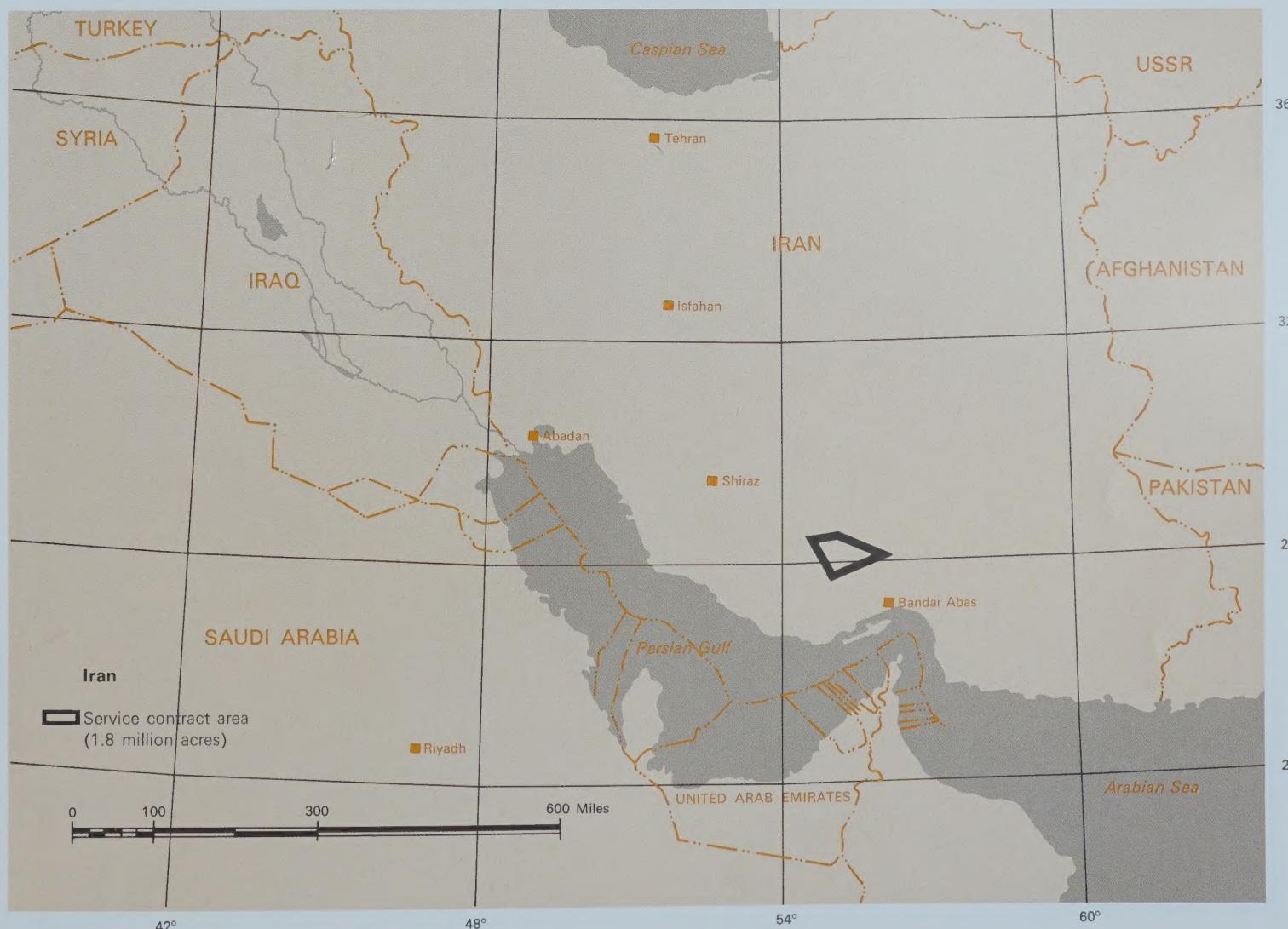
In the Medicine Hat West area, another company has committed to drill 30 wells on acreage owned by Ashland Canada. The Company retains an overriding royalty on resulting gas production, with the option to convert to a 50% working interest after cost recovery.

Frontier areas

Mackenzie Delta

Ashland Canada, as a member of the Delta 5 group, has completed farm-in arrangements negotiated with Imperial Oil and Chevron in the Mackenzie Delta area. The agreements include drilling a minimum of four exploratory tests over a two-year period, three on Imperial Oil lands and one on Chevron acreage. Ashland Canada will contribute 20% to 25% of the total costs, which will exceed \$20 million. The first two of these tests, Ikattok J-17 and North Ellice J-23, are currently being drilled. Success in the initial ventures could be followed up with additional drilling to increase the group's interest in the lands involved and to delineate reserves.

These Delta prospects provide Ashland Canada with a significant exposure to one of the most prospective areas in Canada, where considerable hydro-



carbons have been discovered and, we believe, considerable hydrocarbons remain to be discovered. The Delta 5 group has been accumulating geophysical and geological data for over three years in order to be knowledgeable about the area and to be in a position to move quickly when attractive lands become available.

Colville Lake, N.W.T.

Ashland Canada is carrying out a continuing geophysical survey program in the Colville Lake area but does not plan any additional drilling in the area this year pending resolution of federal land regulations and, hopefully, the approval of a northern natural gas pipeline. The well Ashland et al Tedji Lake K-24, drilled in 1974, tested considerable natural gas from the Basal Cambrian sand and could prove to be an important hydrocarbon discovery upon further evaluation. The

Ashland group and other operators will likely be drilling additional structures in the area as pipeline possibilities are clarified.

Foreign exploration activities

Ashland Canada, directly or through a wholly-owned offshore subsidiary, participated in exploration in Gabon, Iran and Bangladesh during 1975. The Gabon interests were surrendered in August after Ashland (20%) and partners drilled three dry holes. Exploration is continuing in Iran and Bangladesh.

- **Iran** – A subsidiary of Ashland Canada is participating for a 10% interest in a Service Contract covering 1.8 million acres in the Lar area, onshore Iran. The area is one of extremely good hydrocarbon potential, with a number of large undrilled structures. The first well to be drilled on the block is

currently under way. Several other locations for drilling have been selected following a program of field geology and geophysics.

- **Bangladesh** – Ashland Canada and a subsidiary hold a 10% interest in a production-sharing contract in Bangladesh. The 3.5 million acre block is located offshore, in a large undrilled sedimentary basin where initial drilling ventures are just commencing. An extensive marine geophysical program has been conducted and the first well on the block will likely be commenced in early 1977, following additional seismic programs now under way.



Asphalt paving and materials operations

This past year was the fifth in succession in which revenue, cash flow and pre-tax income set new highs for the Asphalt Paving & Materials Division.

Total revenue in 1975 exceeded \$100 million for the first time and was up 21% to \$113.3 million. Income before tax of \$13.2 million compared with \$7.3 million last year. Cash flow was \$17.4 million, up 61% from the 1974 figure of \$10.8 million, while capital expenditures were \$9.0 million.

The Division is organized for operation and management purposes into five regions, and each of the regions contributed to the gains. One of the strengths of the division is this geographical diversification which tends to reduce the overall effect of adverse weather conditions and the impact of a reduction of work available in any one area. Operations in the five regions are conducted through 19 wholly-owned subsidiaries operating in seven provinces and in 40 major cities and towns. Each operation is conducted as a local business, integrated in every way possible in the municipality in which it is situated.

Asphaltic concrete and granular material are the two main items manufactured by the division. In 1975 the 30 permanent and 15 portable plants produced 4.2 million tons of asphalt. In addition to the asphalt used in highway, street, airport and commercial construction, sales were made to hundreds of customers. The 23 crushing units produced 7.5 million tons of aggregate which was sold to municipalities, other levels of government and to private concerns, and was used in production of asphaltic concrete and in the construction operations of the division.

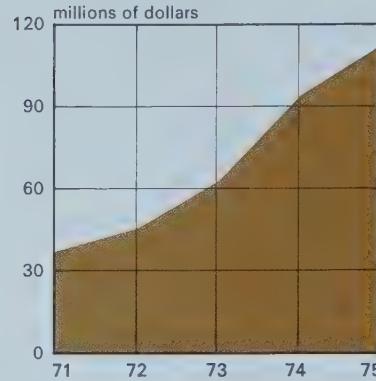
This past year two new asphalt plants were purchased and one old plant was phased out. In addition, several plants

were improved and relocated for more efficient utilization.

The Edmonton, Alberta facilities were upgraded with construction of a new office and shop and installation of one of the new asphalt plants. Property was purchased on the west side of the city for use as a production yard and site for a second asphalt plant serving this expanding area. A new office building was also built at Oshawa, Ontario, completing the upgrading of these facilities following the installation of a new plant two years ago.

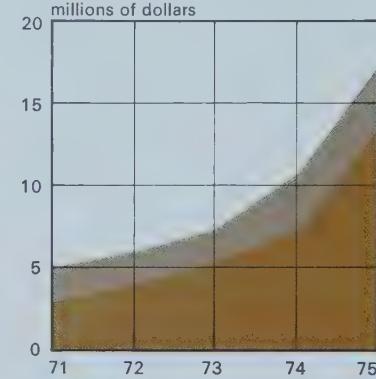
Aggregate reserves, strategically located, provide the strong base from which the division can grow and prosper. During 1975 additions were made to aggregate reserves which now total in excess of 225 million tons of material owned outright and 25 million tons held under long-term lease. The owned material is located on approximately 8,600 acres of real estate within or near metropolitan areas.

Asphalt paving and materials
Sales and operating revenue



Cash flow from operations

Depreciation and depletion
Income before tax



Chemical and petroleum product marketing operations

Chemical Division

The Chemical Division is a leading manufacturer and supplier of thermo-setting resins to the paint, foundry and plastics industries; of specialty surfactants to the mining, detergent and toiletries industries; and of solvents and anti-inhibitors to a broad range of industries in Canada.

Revenue for 1975 was \$16.2 million and income before tax was \$810,000. Sales were down nominally from 1974 due to a decrease in demand arising from the recession of 1975. Income was down because of decreased margins for many products, particularly paint resins, specialty surfactants and solvents, and some expense related to the completion and start-up of the new production facility in Mississauga.

The new \$14 million, 70-million pound resin facility commenced operations in December, and production of the various products will be phased in over a three-month period. The plant is of highly automated and efficient design, capable of making a broad range of batch-produced chemical products to customer specifications.

The division expects to increase sales throughout 1976 as the new plant gradually comes on stream. Income may lag sales initially due to start-up expenses, but the long term profit outlook for this splendid new production facility becomes excellent as plant throughput is increased. The division has under review expansion into several market areas that would contribute additional throughput to the Mississauga plant.

Valvoline Division

The Valvoline Division increased total sales to \$7.4 million but income before tax declined by 17% to \$930,000 due to increased raw material prices and operating costs.

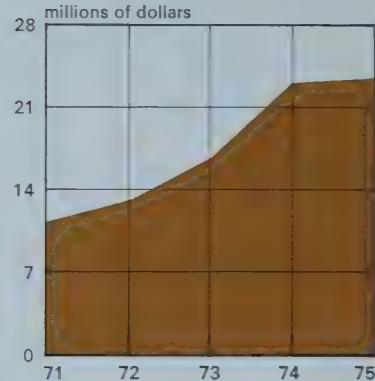
The market for Valvoline products continues to expand, served by blending and packaging facilities in Montreal, Toronto and Vancouver and by an efficient sales and distribution network right across Canada.

Valvoline markets a wide variety of petroleum products including engine lubricants, industrial oils, greases, gear oils and rust preventatives.

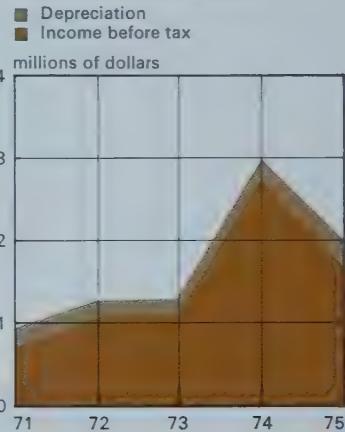
During 1975 Valvoline introduced the Mac's line of automotive chemicals and waxes to the market. Initial distribution in Ontario was well received and the product line will be sold throughout the country in 1976.

Engineering and design studies are now under way for a new blending and packaging plant in the Toronto area where expanded facilities are required to handle increased demand. Alternative locations in or near Metropolitan Toronto are being examined.

Chemical and petroleum Sales and operating revenue



Cash flow from operations



Summary of operations

	<u>1975*</u>	<u>1974†</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
Sales and operating revenue					
	\$173,104	\$148,992	\$102,149	\$75,395	\$63,320
Other income	3,142	2,146	993	984	690
	176,246	151,138	103,142	76,379	64,010
Cost of sales and operating costs	117,906	105,163	70,795	51,432	42,507
Selling, administrative and general expense	12,564	9,733	6,652	5,226	4,693
Depreciation, depletion and amortization	13,478	12,694	10,461	8,144	6,908
Interest	1,992	1,786	1,194	613	407
	145,940	129,376	89,102	65,415	54,515
Income before income taxes, minority interest and extraordinary gains	30,306	21,762	14,040	10,964	9,495
Income taxes					
Current	11,600	1,352	622	380	195
Deferred	3,000	9,648	5,300	4,063	3,952
	14,600	11,000	5,922	4,443	4,147
Income before minority interest and extraordinary gains	15,706	10,762	8,118	6,521	5,348
Minority interest	704	704	706	706	599
Income before extraordinary gains	15,002	10,058	7,412	5,815	4,749
Extraordinary gains	—	1,314	—	—	474
Net income	15,002	11,372	7,412	5,815	5,223
Preferred dividend requirements	98	100	102	102	123
Net income applicable to common shares	\$ 14,904	\$ 11,272	\$ 7,310	\$ 5,713	\$ 5,100
Average shares outstanding	12,885,608	12,867,666	12,778,498	12,742,172	12,878,489
Income per share after extraordinary gains‡					
Basic	\$1.16	\$.87	\$.57	\$.45	\$.40
Fully diluted	\$1.09	\$.84	\$.57	\$.45	\$.40
Dividends per common share	\$.50**	—	—	—	—

*For cumulative effect of change in accounting principles, reference is made to Note B of the Notes to consolidated financial statement contained herein and to the Auditors' Report.

† Adjusted for additional income tax provision of \$1.8 million.

‡ Extraordinary gains amounted to 4¢ per share (4¢ fully diluted) in 1971 and 10¢ a share (9¢ fully diluted) in 1974.

**1975 Dividend - regular 20¢; extra 30¢.

Management's discussion and analysis of the summary of operations

The Company operates on divisional lines and throughout this annual report each division operation is reviewed and comparative statistics are shown. The results for the past two years are discussed in greater detail below.

1974 compared to 1973

Sales and operating revenue increased by \$46.8 million or 46% in 1974 influenced by an expanding economy and, to some degree, by inflation. Revenue from the oil and gas operations increased 26% as a result of crude oil price increases only since production of crude oil declined 6%. Revenue of the Asphalt Paving & Materials Division increased 56% reflecting higher work volumes and the consolidation of revenue of companies acquired in the latter part of fiscal 1973. The acquired companies, accounted for on a purchase basis, contributed revenue of \$20.3 million in 1974. Chemical and petroleum marketing revenue was up 40% attributable to both increased volumes and prices. Costs and availability of raw materials underwent significant and rapid changes throughout the year resulting in many instances in shortages and eventually in higher selling prices.

Other income increased by \$1.2 million which was due almost entirely to increased profits on the disposal of fixed assets.

Cost of sales and operating expenses increased slightly in relationship to sales particularly in the Asphalt Paving & Materials Division where rapidly increasing asphalt and fuel prices early in the year affected overall costs. Cost of sales in each operation was also affected by inflation of prices for materials and supplies but more significantly by wage increases. Changes in certain other items of expenses as shown in the summary of

operations are explained below:

- Selling, administrative and general expenses increased \$3.1 million as a result of increased business and by the pressure of inflation on wages, salaries, and other costs.
- Depreciation, depletion and amortization increased \$2.2 million due, in part, to increased capital additions and also to the amortization of investment in hard mineral exploration amounting to \$1.2 million.
- Interest expense increased \$592,000 due (1) to an increase in interest rates on short term borrowings, (2) to the fact that the 5% convertible subordinated debentures were outstanding for the full year, which was not the case in 1973, and (3) to the interest on long term debt related to acquired companies.
- Income taxes increased \$5.1 million with \$1.8 million attributable to changes in federal and provincial income tax legislation and the balance, for the most part, due to increased taxable income.

1975 compared to 1974

Ashland Canada's operations in 1975 showed significant improvement over 1974 in both revenue and net income. Sales and operating revenue increased \$24.1 million, or 16%, while net income increased \$5 million, equal to 50%. Revenue from the oil and gas operations increased 13% in spite of a 16% reduction in crude oil production. This increase reflected higher prices for both crude oil and natural gas. The increase of 20% in revenue from the asphalt paving operations, while not as significant as in fiscal 1974, was more comparable because the same operating entities were included in each year. The increase resulted from greater volumes and higher prices. The chemical and petroleum marketing operation revenue did not increase to any extent as prices were under downward pressure throughout the year and volumes remained fairly static. Other income items reflected an increase of \$705,000 in interest earned on short-term investments and an increase in crude oil marketing revenue arising from inventory gains.

Profits on the disposal of assets declined as compared to 1974.

Cost of sales and operating expenses declined in the year in relation to revenue and was most significant in the Asphalt Paving & Materials Division. It was also a factor in the oil and gas operation, with the reverse being true in chemical and petroleum marketing. The improvement in the asphalt paving costs resulted from excellent weather in the last quarter, a more stable cost situation and from increased volume, all tending to reduce costs in relation to revenue.

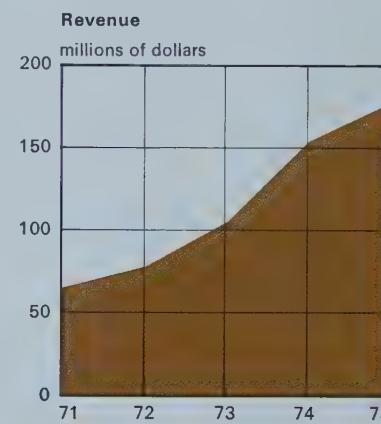
Changes in certain other items of expenses, as shown in the summary of operations, are explained below:

- Selling, administrative and general expense increased \$2.8 million as a result of increased business, inflationary increases in salaries and related costs but also due to the increasing complexity of administration in the oil and gas operations related to revised royalty systems, new incentive programs and numerous changes in Income Tax Acts and regulations by provincial and federal governments. Governments and government agencies are requiring more information, more detailed and more frequent reporting and, in general, are contributing to the continually increasing cost of administration.
- Depreciation, depletion and amortization expense increased by only \$784,000. The decline in crude oil production reduced our total depletion charge in spite of a higher per barrel depletion rate. This rate is rising due to the increasing cost of finding and developing new reserves of crude oil and natural gas. In addition there was no amortization of investments in 1975 as there was in 1974. Offsetting these reductions were increases attributed to increased capital additions, particularly in the paving operations, and to the change in accounting policy on frontier exploration costs as discussed in the summary of significant accounting policies.
- Interest expense increased by \$206,000 due to interest of \$580,000

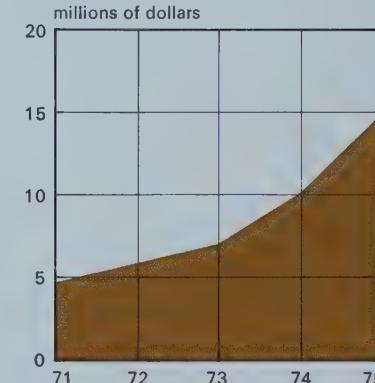
on long-term debt issued in September 1974 and offset for the most part by a decline in short-term borrowings.

- Income taxes increased by \$3.6 million which represented taxes on increased taxable income. The major shift from deferred to current taxes arose from changes in the Income Tax Act reducing the rate of capital cost allowance on certain oil and gas expenditures and to the reduced level of capital expenditures on exploration in Canada in 1975.

Consolidated company



Net income before extraordinary items



Financial review

Income data

	<u>1975</u>	<u>1974*</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	Annual compound growth
	thousands of dollars					%
Sales and operating revenue						
Oil and gas	\$ 36,138	\$ 31,984	\$ 25,298	\$ 18,197	\$ 16,067	22
Asphalt paving and materials	113,338	93,992	60,434	44,120	36,389	33
Chemical and petroleum	23,628	23,016	16,417	13,078	10,864	21
Other income	3,142	2,146	993	984	690	—
	\$176,246	\$151,138	\$103,142	\$ 76,379	\$ 64,010	29
Income by line of business†						
Oil and gas	\$ 17,168	\$ 13,999	\$ 9,685	\$ 6,474	\$ 6,103	30
Asphalt paving and materials	13,230	7,320	5,075	4,110	3,318	41
Chemical and petroleum	1,748	2,821	1,084	1,064	782	22
Cash flow by line of business†						
Oil and gas	\$ 26,069	\$ 21,720	\$ 17,028	\$ 12,314	\$ 11,075	24
Asphalt paving and materials	17,363	10,847	7,398	5,962	4,858	38
Chemical and petroleum	1,965	2,983	1,298	1,257	944	20
Net income for year before extraordinary gain	\$ 15,002	\$ 10,058	\$ 7,412	\$ 5,815	\$ 4,749	33
Cash flow	31,508	\$ 32,427	\$ 23,193	\$ 18,022	\$ 16,124	18

Other financial data

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
	thousands of dollars				
Working capital	\$ 18,541	\$ 27,565	\$ 12,866	\$ 7,859	\$ 7,020
Fixed assets					
Property and equipment at cost	234,955	206,312	180,814	154,343	129,657
Accumulated depreciation and depletion	85,337	76,713	67,686	60,313	54,473
Total assets employed	256,507	228,754	174,297	133,729	106,733
Capital employed	173,656	162,093	131,683	106,058	85,483
Long-term debt	30,945	31,725	22,752	12,506	1,531
Deferred income taxes	42,592	39,592	29,694	22,816	18,753
Minority interest	7,040	7,041	7,060	7,060	7,236
Total shareholders' equity	92,379	83,734	72,177	63,676	57,963

Statistical data

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
Net income					
– per common share before extraordinary gain	\$1.16	\$.77	\$.57	\$.45	\$.36
– % of revenue	8.5	6.7	7.2	7.6	7.4
– % of average capital employed	8.9	6.8	6.2	6.1	5.8
– % of average common shareholders' equity	17.0	12.9	11.2	10.0	8.8
Net worth per common share	\$7.04	\$6.37	\$5.48	\$4.86	\$4.42
Cash flow per common share	\$2.45	\$2.52	\$1.82	\$1.39	\$1.24
Capital expenditures by line of business‡					
Oil and gas	\$ 12,582	\$ 16,399	\$ 14,761	\$ 9,659	\$ 8,431
Asphalt paving and materials	8,974	5,389	3,875	4,350	4,118
Chemical and petroleum	11,671	2,028	555	465	320
Other	270	206	283	112	487

*Adjusted for additional income tax provision of \$1.8 million.

†Before unallocated overhead, interest and income taxes.

‡Corporate acquisitions excluded.

Summary of significant accounting policies

September 30, 1975

The significant accounting policies of the Company and its subsidiaries are summarized below to assist the reader in reviewing the financial statements and other data contained in this Report.

The Companies follow generally accepted accounting principles which are applied on a consistent basis.

Modifications are made from time to time to reflect current accounting practices and improve financial reporting. Effective October 1, 1974 the Companies made a change in the application of the full cost method of accounting for petroleum and natural gas properties by establishing separate cost centres for each of the Arctic Islands, Northwest Territories and East Coast Offshore areas and by adopting the policy of amortization of such costs over five years. The effect of this change on the income of the Companies is shown in Note B of the Notes to consolidated financial statement.

Principles of consolidation

The consolidated financial statement includes the accounts of the Company and all domestic and foreign subsidiary companies.

The current assets and all liabilities of the foreign subsidiaries have been translated into Canadian dollars at the exchange rate prevailing on September 30, 1975. Long-term assets have been translated at historical rates. The exchange adjustment is included in the consolidated statement of income. Provision is made in the consolidation for the minority interest in preferred shares of a subsidiary company together with dividends thereon accrued from the date of the last semi-annual dividend payment.

Stock market information

The principal market for the Company's voting shares is The Toronto Stock Exchange.

The trading prices of the Company's voting shares (by class) on The Toronto Stock Exchange and the dividends paid for the past two fiscal years are set out in the following table:

	Quarter			
	1st	2nd	3rd	4th
Common shares				
1975				
High	\$ 7	\$ 8	\$10 1/8	\$12 1/8
Low	4 1/8	5 1/8	6 1/2	7 1/8
Dividends	—	—	—	.50*
1974				
High	\$15 1/8	\$12 3/4	\$11 1/8	\$8 1/8
Low	10	10 1/8	8	5 1/8
Dividends	—	—	—	—
Preferred shares				
1975				
High	\$17 3/4	\$22 3/4	\$20 1/2	\$24
Low	15	17 1/4	16	18 1/2
Dividends	.75	—	.75	—
1974				
High	\$30	\$25 1/2	\$26	\$20
Low	22	24	20 3/4	17 1/4
Dividends	.75	—	.75	—

*1975 Dividend - regular 20¢; extra 30¢.

*Adjusted for additional income tax provision of \$1.8 million.

Inventories

Inventories are stated at cost as determined under the first-in, first-out or average cost methods. The aggregate of such inventories is not in excess of market.

Petroleum, natural gas and mineral properties

For all domestic and foreign oil and gas exploration activities the Companies follow the full cost method of accounting whereby all costs relative to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties and cost of drilling both productive and non-productive wells less any proceeds from the disposal of properties.

The net costs incurred in Canada, except as noted in the following paragraph, are depleted by the unit of production method based on estimated proven oil and gas reserves.

Effective October 1, 1974 separate cost centres were established for each of the Arctic Islands, Northwest Territories and East Coast Offshore areas of Canada. The remaining undepleted costs previously incurred in each of these areas together with net costs incurred in future years will be amortized on a straight-line basis over five years. Should exploration activity in an area prove successful, the unamortized balance of the cost centre will be depleted by the unit of production method. Should exploration activity in an area prove unsuccessful and management decides that there is little prospect for further work in the area, the unamortized balance of the cost centre will be written off entirely.

Separate full cost centres are established for each foreign country in which the Companies are engaged in exploration activities. The costs of such activities are amortized over varying periods (not exceeding five years) during which exploration activities are expected to continue.

Mining exploration costs are capitalized as incurred. When a mining

exploration project is abandoned or is deemed to have little economic value the capitalized cost is charged to income. For any such project that becomes proven, the capitalized cost will be amortized as estimated recoverable minerals are produced.

Equipment and other property

All equipment and other property is carried at cost. Petroleum and natural gas production equipment is depreciated by the unit of production method. Other equipment and property is depreciated generally on a straight line basis over estimated useful life.

Maintenance, repairs and renewals are charged to income at the time the expenditures are made. Expenditures for betterments are capitalized.

At the time the Companies retire or otherwise dispose of equipment or other property, the cost of the asset and the related allowance for depletion or depreciation is removed from the respective accounts. Gain or loss on disposals is included in income.

Income Taxes

The Companies follow the tax allocation method of accounting whereby the income tax provision is based on reported net income. By this method the Companies make full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the related depreciation, depletion and amortization provisions recorded in the accounts.

The Companies make full provision for income taxes relating to net holdbacks and unbilled work in progress, while actual payment of such taxes is related to the realization of these amounts.

Investment tax credit (available on certain assets purchased before 1977) is accounted for as a reduction of income tax expense in the year realized (flow-through method).

Net income per common share

Net income per common share is based on the weighted average number of common shares outstanding during each year after providing for dividends on the 6% cumulative redeemable

convertible preferred shares. Fully diluted net income per share is calculated on the assumptions that (i) the 6% cumulative redeemable convertible preferred shares were converted at the beginning of the year; (ii) the 5% convertible subordinated debentures were converted at the beginning of the year and (iii) the employee stock options were exercised at the beginning of the year and interest was earned on the proceeds.

Other accounting policies

Income (including holdbacks) from asphalt paving contracts is recognized on the basis of actual work completed in the fiscal period.

The Company purchases crude oil from other producers for resale to refiners along with its own crude oil production. The cost of purchased crude oil is offset against the proceeds from its resale thus excluding such transactions from both revenue and costs. The tax collected on exports of crude oil and remitted to the federal government is also excluded from revenue and costs.

Long-term investments in other companies are carried at cost less an appropriate provision where there has been a decline in value.

Consolidated balance sheet

As at September 30

ASSETS

1975 1974
Restated
in thousands

Current assets

Cash and short-term notes	\$ 6,300	\$ 8,806
Accounts receivable	70,711	65,315
Asphalt paving contracts completed and in progress	7,560	7,086
Inventories	15,894	11,523
Deposits and prepaid expenses	1,627	1,497
Total current assets	102,092	94,227

Investments and other assets

Investments in other companies	2,153	2,475
Receivables, deposits and other assets	2,644	2,453
	4,797	4,928

Property and equipment

Petroleum, natural gas and mineral properties	137,886	130,549
Production equipment	26,445	24,989
Chemical and marketing	16,354	3,840
Asphalt paving	51,955	44,087
Other	2,315	2,847
	234,955	206,312
Less allowances for depreciation and depletion	85,337	76,713
	149,618	129,599

\$256,507 \$228,754

On behalf of the Board:

Director

Director

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

LIABILITIES AND SHAREHOLDERS' EQUITY 1975

1974

Restated

in thousands

Current liabilities

Bank indebtedness	\$ 8,683	\$ 5,706
Accounts payable and accrued liabilities	53,256	43,673
Crude oil export taxes	8,994	14,171
Income taxes payable	11,422	1,787
Accrued minority dividends	176	177
Current maturities of long-term debt	1,020	1,148
Total current liabilities	83,551	66,662
Long-term debt – less current maturities	30,945	31,725
Deferred income taxes	42,592	39,592
Minority interest in preferred shares of a subsidiary	7,040	7,041
Shareholders' equity		
Share capital		
6% cumulative redeemable convertible preferred shares of a par value of \$25 Authorized and issued 200,000 shares; outstanding 62,184 shares (1974 – 65,210 shares)	1,555	1,630
Common shares of a par value of 45¢ Authorized 30,000,000 shares; issued and outstanding 13,121,486 shares (1974 – 13,100,795 shares)	5,905	5,895
Capital in excess of par value	23,157	22,898
Retained earnings	63,253	54,802
	93,870	85,225
Less cost of 215,683 common shares held by a subsidiary	1,491	1,491
Total shareholders' equity	92,379	83,734
	\$256,507	\$228,754

Consolidated statement of income

Years ended September 30

	1975	1974
	Restated in thousands	
Revenue		
Sales and operating revenue*	\$174,877	\$149,639
Gain on disposal of assets	486	1,321
Other	883	178
	176,246	151,138
Costs and expenses		
Cost of sales and operating costs	117,906	105,163
Selling, administrative and general expenses	12,564	9,733
Depreciation, depletion and amortization	13,478	12,694
Interest	1,992	1,786
	145,940	129,376
Income before income taxes, minority interest and extraordinary gain	30,306	21,762
Income taxes		
Current	11,600	1,352
Deferred	3,000	9,648
	14,600	11,000
Income before minority interest and extraordinary gain	15,706	10,762
Interest of minority preferred shareholders in the net income of a subsidiary	704	704
Net income before extraordinary gain	15,002	10,058
Gain on settlement of insurance claim (net of income tax of \$250,000)	—	1,314
Net income for the year	\$ 15,002	\$ 11,372
Net income per common share		
Before extraordinary gain	\$1.16	\$.77
Extraordinary gain	—	.10
Net income for the year	\$1.16	\$.87

*Excludes royalties, excise taxes and resale of purchased crude oil

Consolidated statement of retained earnings

Years ended September 30

	1975	1974
	Restated in thousands	
Retained earnings beginning of year	\$ 54,802	\$ 43,530
Net income for the year	15,002	11,372
	69,804	54,902
Dividends:		
Common shares	6,453	—
6% preferred shares	98	100
	6,551	100
Retained earnings end of year	\$ 63,253	\$ 54,802

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

Consolidated statement of changes in financial position

Years ended September 30

1975 1974
 Restated
 in thousands

Working capital was provided from:

Net income before extraordinary gain	\$ 15,002	\$ 10,058
Depreciation, depletion and amortization	13,506	12,721
Deferred income taxes	3,000	9,648
Provided from operations	31,508	32,427
Property and equipment disposals	712	410
Increase in long-term debt	433	10,244
Investments and other assets	103	—
Exercise of employee stock options	95	29
Proceeds from insurance claim	—	1,564
Total working capital provided	32,851	44,674

Working capital was used for:

Net non-current assets of businesses acquired	—	4,230
Common shares issued	—	(286)
Property and equipment additions	34,209	24,146
	34,209	28,090
Dividends	6,551	100
Reduction in long-term debt	1,115	1,270
Investments and other assets	—	515
Total working capital used	41,875	29,975

Increase (decrease) in working capital

\$ (9,024) \$ 14,699

Changes in components of working capital:

Increase (decrease) in current assets

Cash and short-term notes	\$ (2,506)	\$ 7,455
Accounts receivable	5,396	26,158
Asphalt paving contracts completed and in progress	474	484
Inventories	4,371	4,744
Deposits and prepaid expenses	130	(94)
Net increase in current assets	7,865	38,747

Increase (decrease) in current liabilities

Bank indebtedness	2,977	(1,589)
Accounts payable and accrued liabilities	9,583	11,050
Crude oil export taxes	(5,177)	14,171
Income taxes payable	9,635	639
Accrued minority dividends	(1)	—
Current maturities of long-term debt	(128)	(223)
Net increase in current liabilities	16,889	24,048

Increase (decrease) in working capital

\$ (9,024) \$ 14,699

See accompanying summary of significant accounting policies and notes to consolidated financial statement.

Notes to consolidated financial statement

September 30, 1975 and
September 30, 1974

Note A — accounting policies

The information presented on pages 14 and 15 summarizes the significant accounting policies of the Companies and is an integral part of the consolidated financial statement.

Note B — change in accounting policy

Petroleum, natural gas and mineral properties

In previous years the Companies maintained one full cost centre for all exploration activities in Canada and depleted net costs by the unit of production method as proven reserves of oil and gas were produced.

Effective October 1, 1974 the Companies made a change in the application of the full cost method of accounting for petroleum and natural gas properties by establishing separate cost centres for each of the Arctic Islands, Northwest Territories and East Coast Offshore areas and by adopting the policy of amortizing such costs over five years. See Summary of Significant Accounting Policies.

As a result of this change in accounting policy net income for the year ended September 30, 1975 was decreased by \$465,000 (3.5¢ per share).

Note C — retroactive adjustment to 1974 income taxes

Early in fiscal 1975 the Parliament of Canada enacted a number of amendments to the Income Tax Act, some of which were retroactive in their application to May 6, 1974. As a result an additional provision for income taxes of \$1,800,000 (14¢ per share) for the year ended September 30, 1974 was required. The 1974 financial statement has been restated to reflect this additional provision for income taxes.

Note D — amounts owing by parent company

Accounts receivable include \$31,055,000 (\$30,444,000 in 1974) receivable from the sale of purchased and produced crude oil to Ashland Oil, Inc. This account is settled monthly in cash.

Note E — inventories

Inventories at September 30, 1975 and 1974 consisted of the following:

	1975	1974
Asphalt paving materials	\$ 8,153,000	\$ 6,798,000
Crude oil	3,822,000	1,170,000
Plastics, resins and chemicals	2,236,000	2,000,000
Refined and semi-refined products	834,000	921,000
Other operating supplies	849,000	634,000
	\$15,894,000	\$11,523,000

Note F — long-term debt

The long-term debt consists of:

	1975	1974
5% convertible subordinated debentures (unsecured) due January 15, 1993	\$19,902,000	\$20,000,000
Unsecured income debenture due September 30, 1979	10,000,000	10,000,000
5% unsecured notes due September 21, 1976 and 1977	800,000	1,300,000
5½% sinking fund redeemable notes, Series "A", due July 1, 1976	188,000	365,000
Other notes and mortgages	1,075,000	1,208,000
	31,965,000	32,873,000
Less current maturities included in current liabilities	1,020,000	1,148,000
	\$30,945,000	\$31,725,000

The 5% convertible subordinated debentures are convertible into common shares of the Company at the rate of 60 shares per \$1,000 principal amount until January 14, 1983 and are subject to sinking fund provisions commencing January 15, 1984.

Interest on the unsecured income debenture, which is not deductible for income tax purposes, is payable only out of profits at an annual rate of one half of the total of (i) the prime commercial lending rate of a Canadian chartered bank and (ii) 1.75%.

The amounts of long-term debt due during the four years following September 30, 1976 are: 1977—\$671,000; 1978—\$89,000; 1979—\$10,067,000; and 1980—\$66,000.

Debt issue expenses relating to the 5% convertible subordinated debentures are being amortized over 20 years. Current amortization of \$28,000 (1974—\$27,000) is included in interest expense. The unamortized balance at September 30, 1975 amounted to \$489,000 (1974—\$517,000).

Note G — shareholders' equity

Changes in the Company's share capital and capital in excess of par value during the two years ended September 30, 1975 are as follows:

	Number of shares	Par value	Capital in excess of par value
6% cumulative redeemable convertible preferred shares			
October 1, 1973	68,010	\$1,700,000	
Converted to common shares	(1,600)	(40,000)	
Purchased for cancellation	(1,200)	(30,000)	
September 30, 1974	65,210	1,630,000	
Converted to common shares	(3,026)	(75,000)	
September 30, 1975	<u>62,184</u>	<u>\$1,555,000</u>	
Common shares			
October 1, 1973	13,066,260	\$5,880,000	\$22,558,000
Issued on the purchase of a business	28,560	13,000	273,000
Issued on the conversion of preferred shares	3,283	1,000	39,000
Issued for cash on exercise of employee stock options	2,692	1,000	28,000
September 30, 1974	<u>13,100,795</u>	<u>5,895,000</u>	<u>22,898,000</u>
Issued for cash on exercise of employee stock options	8,800	4,000	91,000
Issued on the conversion of preferred shares	6,011	3,000	73,000
Issued on the conversion of 5% debentures	5,880	3,000	95,000
September 30, 1975	<u>13,121,486</u>	<u>\$5,905,000</u>	<u>\$23,157,000</u>

At September 30, 1975 and 1974 common shares of the Company were reserved as follows:

	1975	1974
Shares for the conversion of 5% convertible subordinated debentures	1,194,120	1,200,000
Shares for the conversion of 6% cumulative redeemable convertible preferred shares	123,577	129,590
Shares under employee stock options	202,703	198,253
Shares reserved for additional employee stock options which may be granted	77,400	90,650
Total common shares reserved	1,597,800	1,618,493

Note H — employee stock options

Options granting certain officers (five of whom are also directors) and employees the right to purchase common shares of the Company under the terms of a Preferred Employees' Stock Option Plan were outstanding as follows:

Expiry date	Price	Number of shares September 30,	
		1975	1974
June 14, 1976	\$10.75	135,453	145,753
September 25, 1977	11.75	26,000	30,750
September 30, 1978	12.00	16,750	16,750
August 13, 1979	7.125	5,000	5,000
March 31, 1980	6.75	19,500	—
		202,703	198,253

Changes in the number of common shares under option during the two years ended September 30, 1975 were as follows:

	1975	1974
Outstanding, beginning of year	198,253	187,095
Granted at \$7.125 to \$12.00	—	21,750
Granted at \$6.75	21,500	—
Exercised at \$10.75 to \$11.75	—	(2,692)
Exercised at \$10.75	(8,800)	—
Cancelled	(8,250)	(7,900)
Outstanding, end of year	202,703	198,253

Note I — income taxes

The Companies' policy for accounting for income taxes is described in the Summary of Significant Accounting Policies.

Income tax provisions amounted to \$14,600,000 (48.2%) in 1975 and \$11,000,000 (50.5%) (restated) in 1974. A reconciliation of these effective rates with the normal combined Canadian Federal and Provincial tax rates of approximately 50% is as follows:

	Per cent of income before income taxes	
	1975	1974
Normal combined Canadian Federal and Provincial tax rate	50.0%	50.0%
Increase (decrease) resulting from :		
Inclusion of royalties and other payments to the Crown in taxable income	29.2	14.9
Abatement of taxes on production income after May 6, 1974	(10.0)	(4.6)
Provincial rebates	(9.1)	(4.4)
Depletion allowances	(14.3)	(9.4)
Other items	2.4	4.0
Effective Federal and Provincial tax rate	48.2%	50.5%

While the Companies are required to make full provision for income taxes relating to net holdbacks and unbilled work in progress on asphalt paving contracts, actual payment of such taxes is related to the realization of these amounts. As a result the provision for income taxes currently payable includes \$5,405,000 (nil in 1974) which becomes payable only after these amounts are realized.

Note J — lease commitments

At September 30, 1975 the Companies were committed under non-cancellable leases for the following minimum annual rentals:

Year ended September 30,	Total	Financing leases	Other leases
1976	\$755,000	\$255,000	\$500,000
1977	714,000	213,000	501,000
1978	669,000	170,000	499,000
1979	522,000	30,000	492,000
1980	496,000	4,000	492,000
1981 – 1985	984,000	—	984,000
1986 – 1990	288,000	—	288,000
1991 – 1995	260,000	—	260,000

Rental expense on the above leases was \$697,000 for 1975 and \$737,000 for 1974.

The estimated present value at September 30, 1975 of the net fixed minimum rental commitments for all non-capitalized financing leases, using an interest rate of 10%, is \$559,000. If all financing leases had been capitalized there would have been little or no effect on net income.

Note K — commitments

Commitments in the ordinary course of business for acquisition or construction of property and equipment are not material in relation to the Companies' net assets.

Note L — retirement plans

The Companies operate retirement plans which cover substantially all employees. At December 31, 1973 the date of the last actuarial evaluation, assets of the plans exceeded liabilities for retirement benefits accrued to that date. There are no unfunded past service liabilities.

Note M — remuneration of directors and senior officers

Direct remuneration of the Company's directors and senior officers for the year ended September 30, 1975 amounted to \$770,000 (1974 – \$511,000). An aggregate amount of \$376,000 has been set aside in respect of incentive payments proposed to be made upon recommendation of the Compensation Committee of the Board of Directors to certain employees of the Company, some of whom are also directors and senior officers.

Note N — fully diluted net income per common share

Fully diluted net income per common share calculated on the basis described in the Summary of Significant Accounting Policies is as follows:

	1975	1974
Before extraordinary gain	\$1.09	\$.75
Extraordinary gain	—	.09
	\$1.09	\$.84

Ernst & Ernst
Chartered Accountants

Calgary, Alberta
October 31, 1975

Directors

Eric Connelly, *†
Calgary, Alberta
Chartered Accountant (self employed)

S. B. Davis, III
Ashland, Kentucky
Administrative Vice President, Ashland Oil, Inc.‡

Eugene W. Erickson
Hudson, Wisconsin
President, Northwestern Refining Co. Division, Ashland Oil, Inc.‡

H. Earl Joudrie *†
Toronto, Ontario
Chairman of the Board and Chief Executive Officer, Ashland Oil Canada Limited

Larry G. Link
Mississauga, Ontario
Senior Vice President; President, Asphalt Paving & Materials Division, Ashland Oil Canada Limited

Arloe W. Mayne *†
Ashland, Kentucky
Administrative Vice President; General Counsel, Ashland Oil, Inc.‡

James A. Millard *†
Calgary, Alberta
Partner, MacKimmie Matthews, Barristers and Solicitors

Carl O. Nickle†
Calgary, Alberta
Oil company executive, Conventures Limited, an energy resources company

William R. Seaton
Ashland, Kentucky
Vice Chairman of the Board of Directors, Ashland Oil, Inc.‡

Vernon Van Sant, Jr.†
Calgary, Alberta
President, Ashland Oil Canada Limited

William J. Whelan
Toronto, Ontario
Senior Vice President; Treasurer, Ashland Oil Canada Limited

*Member of the Audit Committee

†Member of the Compensation Committee

‡Ashland Oil, Inc., a Kentucky, U.S.A. corporation, is a diversified industrial company and the parent of Ashland Oil Canada Limited.

Registered head office

1800 Standard Life Building
639 – 5th Ave. S.W.
Calgary, Alberta T2P 0N1

Executive offices

1900 Travelers Tower
400 University Ave.
Toronto, Ontario M5G 1S5

Principal officers

(All listed persons are full time employees of Ashland Oil Canada Limited)

H. Earl Joudrie
Chairman of the Board
and Chief Executive Officer

Vernon Van Sant, Jr.
President

Colin M. Evans
Senior Vice President

Larry G. Link
Senior Vice President;
President, Asphalt Paving & Materials Division

William J. Whelan
Senior Vice President;
Treasurer

Joseph S. Irwin, Jr.
Vice President;
General Manager, Oil & Gas Division

Jason B. Leask
Vice President

Brian R. Wakeford
Vice President;
President, Chemical Division

Arthur R. Morison
Comptroller

Leslie Treloar
Secretary

General Counsel

Georges Dubé

Registrars and transfer agents

Common shares

Guaranty Trust Company of Canada:
Calgary, Toronto, Montreal, Winnipeg,
Regina and Vancouver

Bank of New York:
New York, N.Y.

6% cumulative redeemable convertible preferred shares

Guaranty Trust Company of Canada:
Calgary, Toronto, Montreal, Vancouver

Trustees

5% convertible subordinated debentures, due 1993

National Trust Company, Limited:
Montreal, Toronto, Winnipeg, Calgary,
Vancouver

Subsidiary companies

Canada

A. H. McCoy Construction Company Limited
Bennett Paving & Materials Limited
Blue Diamond Holdings Ltd.
Canadian Ashland Exploration Ltd.
Canadian Williston Leaseholds Ltd.
Columbia Bitulithic Ltd.
Deschenes Construction Ltd.
Deschenes Structures Limited
Dibblee Construction Company, Limited
Eastern Bitulithic Limited
Franceschini Bros. Construction Limited
Hub City Paving Ltd.
MTR Leasing Limited
Northland Bitulithic Limited
R&E Paving (1975) Ltd.
TBG Contracting Ltd.
Towland-Hewitson Construction Limited
Towland (London) 1970 Limited
Twin Bridges Aggregates & Transport Ltd.
Vermilion Consolidated Oils Limited
Warren Bitulithic Limited
Warren (Maritime) Limited
Wells Construction Ltd.
Whitehall Leaseholds Ltd.

Bermuda

Cran Exploration Ltd.
Cran Exploration (Iran) Ltd.

Operating divisions

Oil & Gas Division

1800 Standard Life Building
639 – 5th Ave. S.W.
Calgary, Alberta T2P 0N1

Asphalt Paving & Materials Division

Suite 204, 1017 Wilson Ave.
Downsview, Ontario M3K 1Z1

Regional Offices:

Little Harbour Road, New Glasgow,
Nova Scotia B2H 5E2
72 Ashwarren Road, Downsview,
Ontario M3J 1Z6
Klock Road
Aylmer, Quebec J9H 5E4
P.O. Box 6100, Station C, Edmonton,
Alberta T5B 4K5
Granville Island,
British Columbia V6J 4N7

Valvoline Oil Canada Division

31 Industrial Street, Toronto,
Ontario M4G 1Z2
421 No. 3 Road, Richmond,
British Columbia V6X 2C3
1270 Rue Nobel, Boucherville,
Quebec J4B 5H1

Chemical Division

1900 Travelers Tower
400 University Ave.
Toronto, Ontario M5G 1S5

Resin & Chemical Group
2620 Royal Windsor Drive
Mississauga, Ontario L5J 4E7

Industrial Chemicals & Solvents Group
150 Bronoco Ave.
Toronto, Ontario M6E 4Y1





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ASHLAND OIL CANADA LIMITED
1900 Travelers Tower
400 University Avenue
Toronto, Ontario
Canada M5G 1S5



The Globe & Mail
I Carmen, Editor-Report on Bus
444 Front St West
Toronto Ont



Ashland Oil Canada Limited

INTERIM REPORT
TO SHAREHOLDERS

For the six months ended
March 31, 1975

**ASHLAND OIL CANADA LIMITED
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF INCOME*

(\$000's OMITTED)

	Three Months Ended March 31		Six Months Ended March 31	
	1975	1974	1975	1974
INCOME				
Net sales and operating revenues.....	\$19,334	\$15,402	\$66,619	\$52,118
Gain on disposal of assets.....	136	19	148	19
Miscellaneous income.....	273	412	508	418
TOTAL INCOME.....	19,743	15,833	67,275	52,555
EXPENSES				
Costs and expenses.....	12,992	10,550	49,257	38,046
Depreciation, depletion and amortization.....	2,093	2,047	5,108	5,202
Interest on long-term debt.....	412	278	847	559
TOTAL EXPENSES.....	15,497	12,875	55,212	43,807
Income before minority interest and taxes.....	4,246	2,958	12,063	8,748
Provision for taxes on income :				
Current.....	1,793	—	5,400	483
Deferred.....	39	1,131	732	3,130
TOTAL TAXES.....	1,832	1,131	6,132	3,613
Income before minority interest.....	2,414	1,827	5,931	5,135
Minority interest.....	175	175	351	351
NET INCOME.....	\$ 2,239	\$ 1,652	\$ 5,580	\$ 4,784
Income per common share:				
Fully diluted.....	17¢	13¢	41¢	36¢
Cash flow from operations – see accompanying statement of changes in financial position.....	\$4,371	\$4,830	\$11,420	\$13,116
Average daily production (gross before royalties) :				
Crude oil and natural gas liquid products (barrels).....	22,853	26,533	21,937	27,146
Natural gas (millions of cubic feet).....	35.5	34.0	32.0	33.5

*The above statements are unaudited and subject to year-end adjustments.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION *

(**\$000's OMITTED**)

	Three Months Ended March 31		Six Months Ended March 31	
	1975	1974	1975	1974
WORKING CAPITAL WAS PROVIDED FROM:				
Net income.....	\$ 2,239	\$ 1,652	\$ 5,580	\$ 4,784
Depreciation, depletion and amortization.....	2,093	2,047	5,108	5,202
Deferred income taxes.....	39	1,131	732	3,130
Provided from operations	4,371	4,830	11,420	13,116
Property and equipment disposals.....	145	83	147	114
Proceeds from the issue of common shares.....	—	4	—	30
Miscellaneous.....	85	(98)	106	—
TOTAL WORKING CAPITAL PROVIDED	\$ 4,601	\$ 4,819	\$11,673	\$13,260
WORKING CAPITAL WAS USED FOR:				
Property and equipment additions.....	\$ 8,095	\$ 5,859	\$14,021	\$10,769
Investments and other assets.....	100	59	100	81
Reduction in long-term debt.....	298	273	374	378
Dividends on preferred shares.....	—	—	49	51
Increase in mortgages and notes receivable.....	—	494	—	494
Miscellaneous.....	(30)	9	—	46
TOTAL WORKING CAPITAL USED	\$ 8,463	\$ 6,694	\$14,544	\$11,819
Increase (decrease) in working capital	\$ (3,862)	\$ (1,875)	\$ (2,871)	\$ 1,441
Working capital at beginning of period	29,031	16,181	28,040	12,865
Working capital at end of period	\$25,169	\$14,306	\$25,169	\$14,306

On behalf of the Board:

Boris WJ Whelan
Director Director

ASHLAND OIL CANADA LIMITED

TO THE SHAREHOLDERS

Net income was \$5.6 million for the six month period ended March 31, 1975, a 16% increase over last year. Total revenues were up 28% to \$67 million.

Cash flow decreased from \$13.1 million to \$11.4 million due to a substantial increase in current taxes which amounted to \$5.4 million for the six month period compared to less than \$0.5 million last year. Income before tax and minority interest rose by 38% from \$8.7 million to \$12.1 million.

Oil & Gas Division

Oil and gas revenues were up compared with last year as a result of higher prices which more than offset a reduction in crude oil production from 27,000 to 22,000 barrels per day. Natural gas production remained essentially level at 32 million cubic feet per day.

Continued market prorationing at present levels is probable unless the federally imposed export tax is reduced to make Canadian crude oil competitive in traditional United States markets. Canadian crude oils are over-priced in the U.S. market by over \$1 per barrel, which has reduced export market demand to below 540,000 barrels a day for May 1975 compared with 980,000 barrels a day in May 1974. As a result, many oilfields in southwestern Saskatchewan were shut in during April and some other fields in Saskatchewan and southern Alberta were produced at less than half capacity.

We expect income from crude oil production during the last six months of fiscal 1975 to be down from the comparable period in fiscal 1974. This expected decrease results from lower production caused by the current market prorationing discussed above.

Exploration and development activities continue to be curtailed because of royalty and tax uncertainties. Ashland Canada participated in drilling 54 wells during the period, with 10 completed for oil production, 26 for gas production, and 18 were abandoned. During the first six months of last year Ashland Canada participated in drilling 110 wells, which indicates the magnitude of the reduction in our oil and gas activities, particularly exploration, compared to last year.

The First Ministers' Conference in early April was a disappointment, as no firm decisions were reached on oil and gas pricing. We remain convinced, however, that with continued focus by governments on oil and gas and energy issues they will ultimately recognize the necessity of a pricing structure which will encourage the private sector.

It is evident that increased wellhead prices alone will be of little or no help to Ashland Canada or the industry as a whole without downward adjustment in provincial royalty levels along with reconsideration of the federal tax on payments to provincial governments.

Asphalt Paving & Materials Division

The asphalt paving and materials operation had revenues of \$38 million for the period, generating \$4.4 million in before-tax

income, an increase of 50%. Work under contract of \$29 million compares with \$26.3 million at this time last year. There is every indication that this business will enjoy another good year, but operations will be well into the third quarter before an accurate assessment of the year's work volume can be made.

Chemicals and Petroleum Products

Revenues from chemical and petroleum product operations were \$11.6 million for this six month reporting period compared to \$9.8 million for the first six months of fiscal 1974. Net income before tax increased to \$1,187,000 from \$1,009,000 for the same period last year.

Although markets for these products are much more competitive than last year we expect to maintain satisfactory levels of revenue and earnings.

Fiscal 1974 Income Tax Adjustment

Taxation measures proposed by the federal government at the time our 1974 Annual Report was being printed have not been enacted and various provincial government responses clarified. We can confirm that a retroactive increase of \$1.8 million will be required in last year's tax provision with \$475,000 being current taxes and \$1,325,000 deferred taxes. This increase in taxes will mean a reduction in net income of 14¢ per share from the 91¢ per share reported for fiscal 1974.

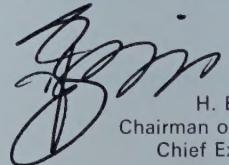
Announcement by Principal Shareholder

Ashland Oil, Inc., a U.S. corporation, presently owns approximately 84% of the outstanding common stock of Ashland Canada Limited. In his quarterly letter to shareholders, Ashland Oil, Inc.'s Board Chairman and Chief Executive Officer Orville Atkins reported that Ashland is studying alternatives by which it can reduce its present ownership of Ashland Canada.

Mr. Atkins explained that during the past year Canada has adopted measures to control foreign investment in Canada thereby affecting corporations such as Ashland Canada. A reduction in Ashland Oil, Inc.'s ownership will allow the Canadian company more flexibility for future growth and would be keeping with the aspirations of many Canadians and in accordance with Canadian government policy.

We share the views expressed by Mr. Atkins on the magnitude of the Ashland shareholdings in Ashland Canada. We recommend and concur with the study of alternatives now underway.

The business of Ashland Canada will proceed in a normal manner, with no slowdown, deferral or delay in any of the broad range of activities in which the Company is involved.



H. EARL JOUDREY
Chairman of the Board and
Chief Executive Officer

May 2, 1975